Greece at a Crossroads:

Prof. Gikas A. Hardouvelis

Director

Economic Office of the Prime Minister – Hellenic Republic

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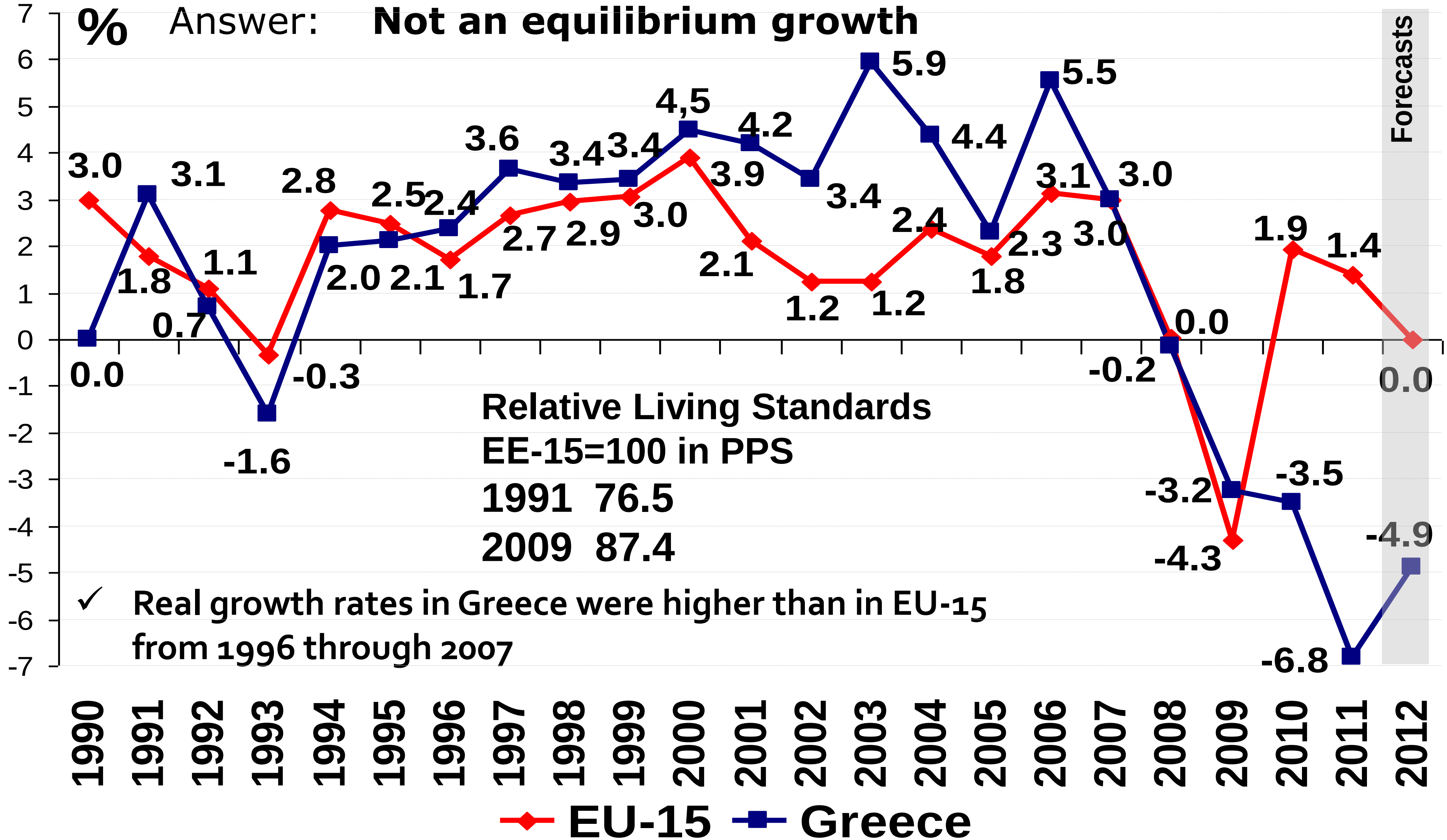
I. A bird's eye view on Greece: Population and the economy

2010	Greece	EA17		World
Population (mil.)	11.3	331.4		6,840.5
Geographical Area (thousand km²)	132.0	2,624.0		148,940
GDP per capita (€)	19,019	27,600		6,971
Living standards (UN ranking among 194 countries)	22			
Life expectancy (years) (2009)	80.2	80.5		69.4
Motor vehicles per 1000 inhabitants (2007)	560	602		
Suicides / 100 thousand inhabitants (2009)	3.0	9.1	(EU-15)	
Primary Sector (% GDP)	3.2	1.7		3.2
Secondary Sector (% GDP)	18.8	25.1		26.1
Tertiary Sector (% GDP)	78.0	73.2		70.7
Tourism (Total contribution, % GDP)	15.4	7.9	(EU-27)	9.1
Construction (% GDP)	5.3	6.2		
Public Sector (Gen. Gov. Exp. % GDP)	50.1	50.9		
Exports (% GDP)	21.5	40.9		
Imports (% GDP)	30.4	39.6		
Private Consumption (% GDP)	74.5	57.5		
Gen. Gov. Debt (% GDP)	144.9	85.6		

I. High Greek growth rates, yet based on an imbalanced economy

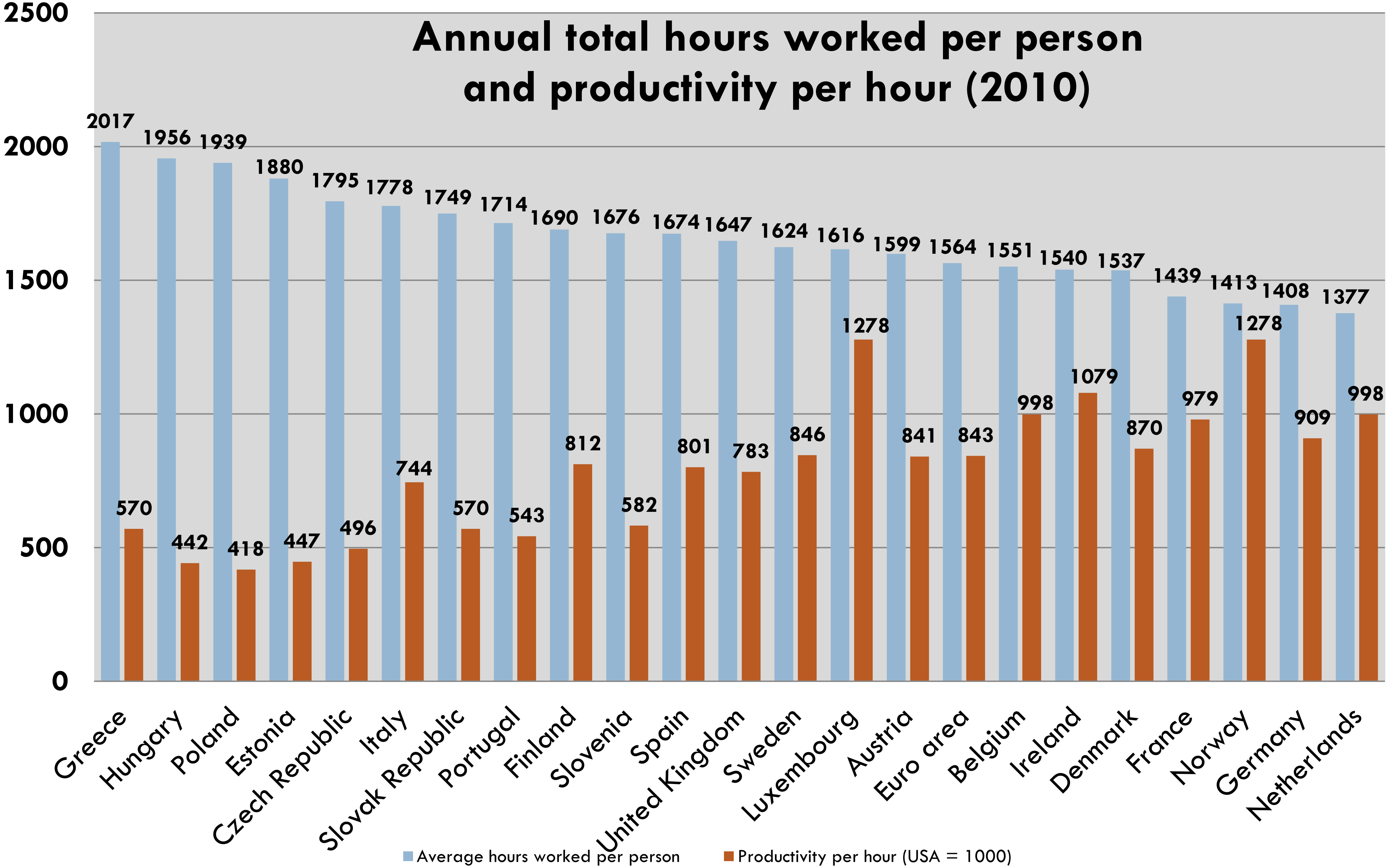
Greece: From boom to bust. How come?

Answer: **Not an equilibrium growth**



Source: EU, ELSTAT, EFG Forecasts

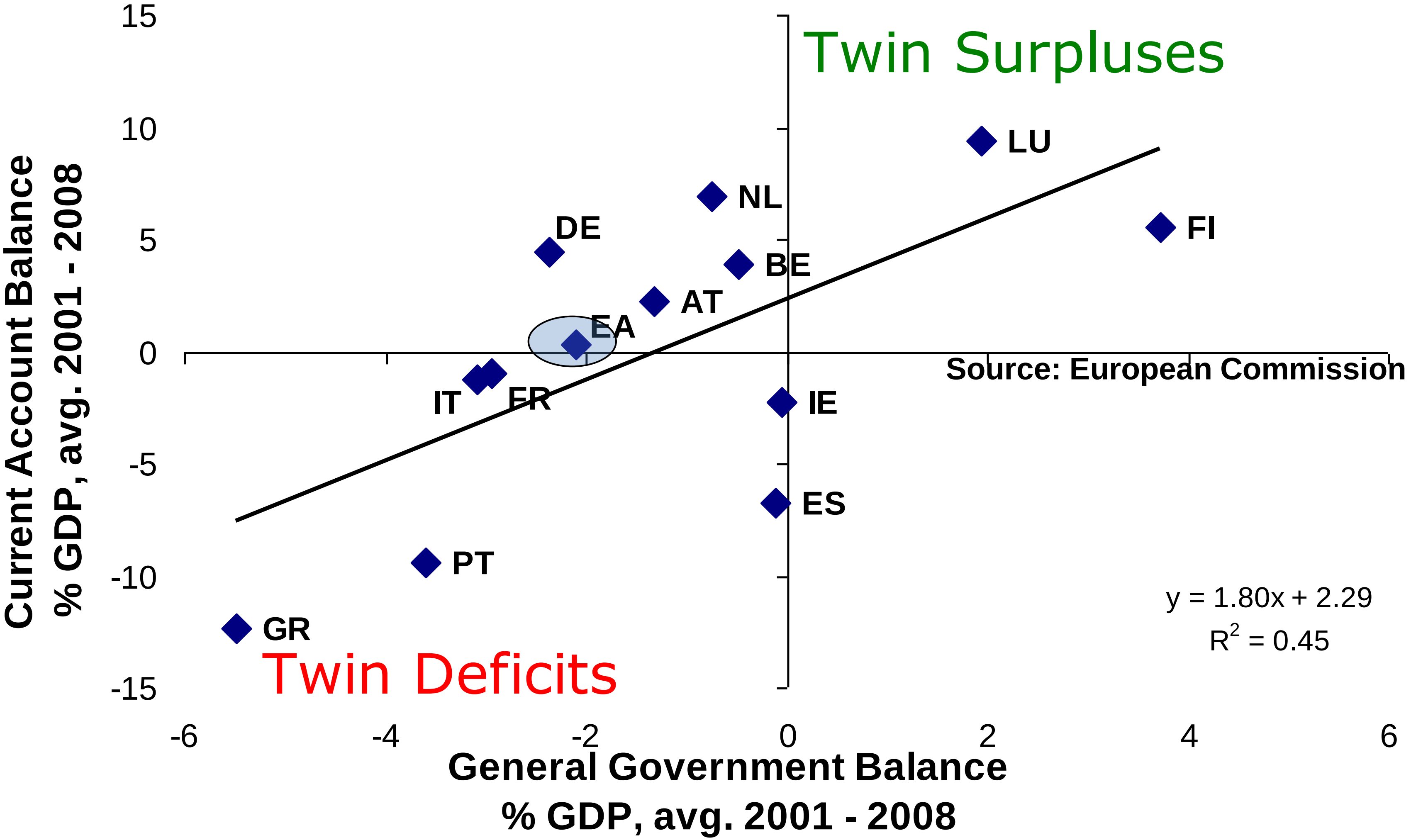
I. Greeks are the hardest working in Europe!



Source: OECD, StatExtracts: Labour productivity levels in the total economy, 2010

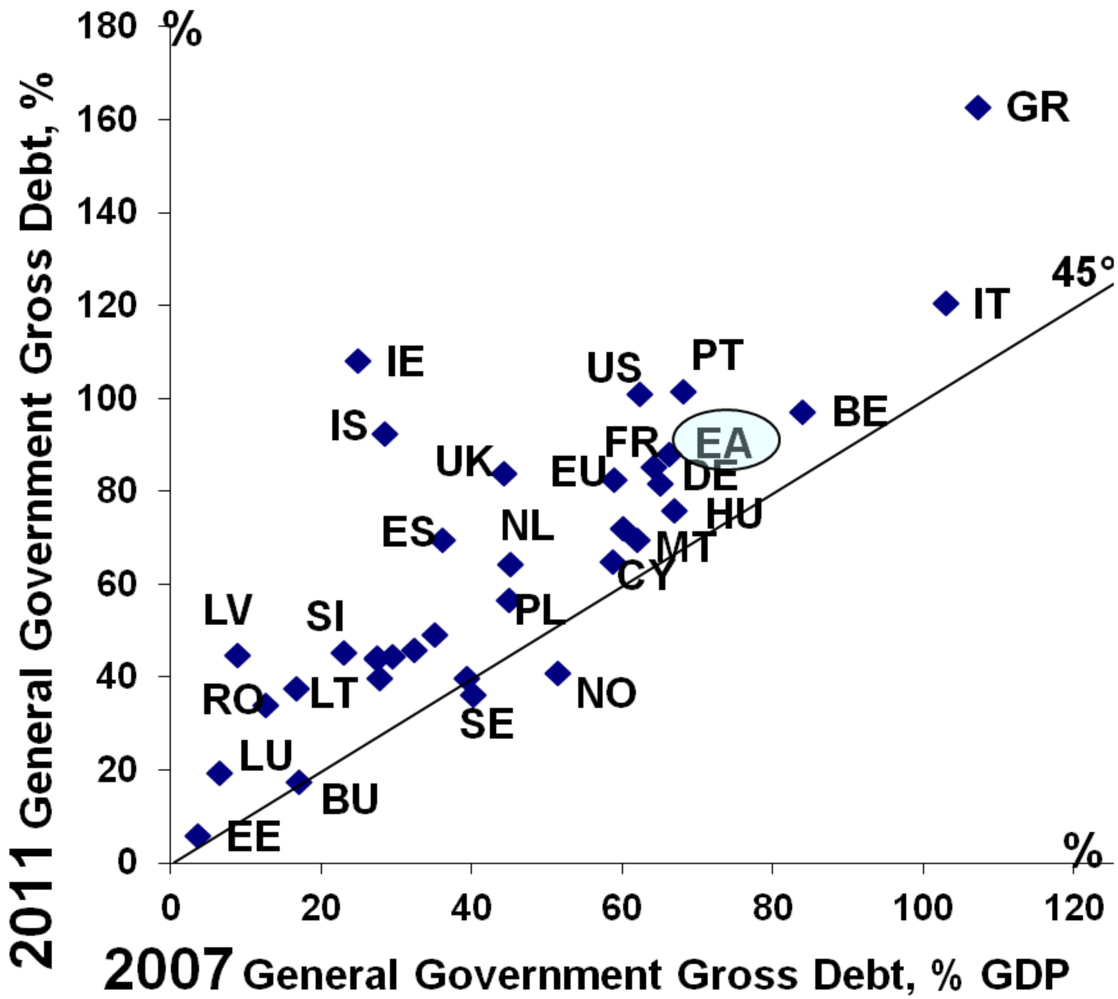
I. External and internal (fiscal) imbalances in the Euro Area

- ✓ **Uncompetitive South vs. competitive North**
- ✓ **Fiscal profligacy almost everywhere**



I. Public Debt: The Damoclean sword

General Government Debt-to-GDP

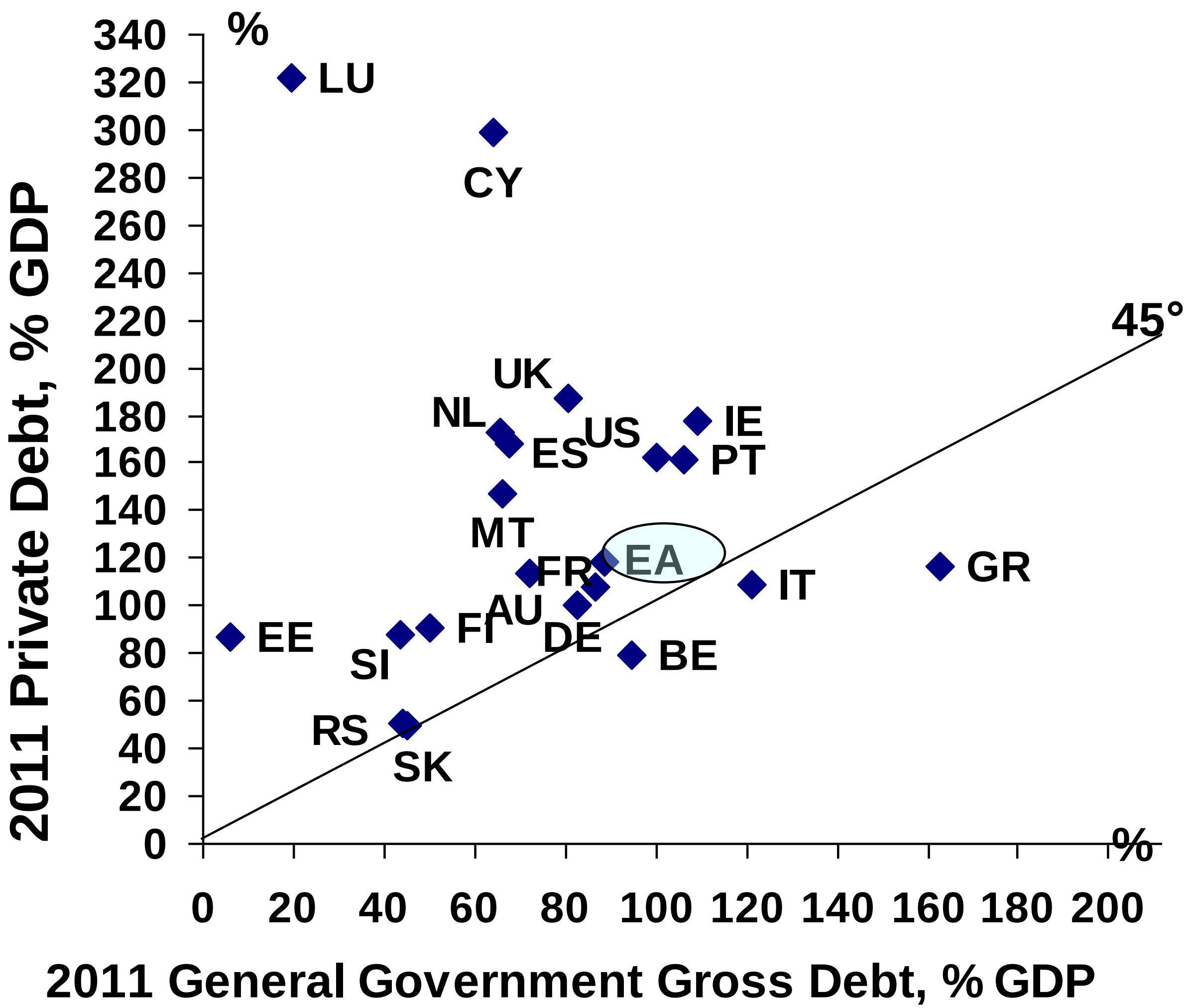


2011 GG Debt (€ bn)	
Portugal	174.5
Ireland	168.8
Italy	1,910.9
Spain	748.0
Greece	356.0
Belgium	360
Germany	2,098.6
France	1,697.1
UK	1,268.7

- ✓ **Debt Deterioration everywhere from 2007 to 2011**
- ✓ **Largest deterioration in Ireland**
- ✓ **EA showed smaller deterioration than US or UK**

Source: EU

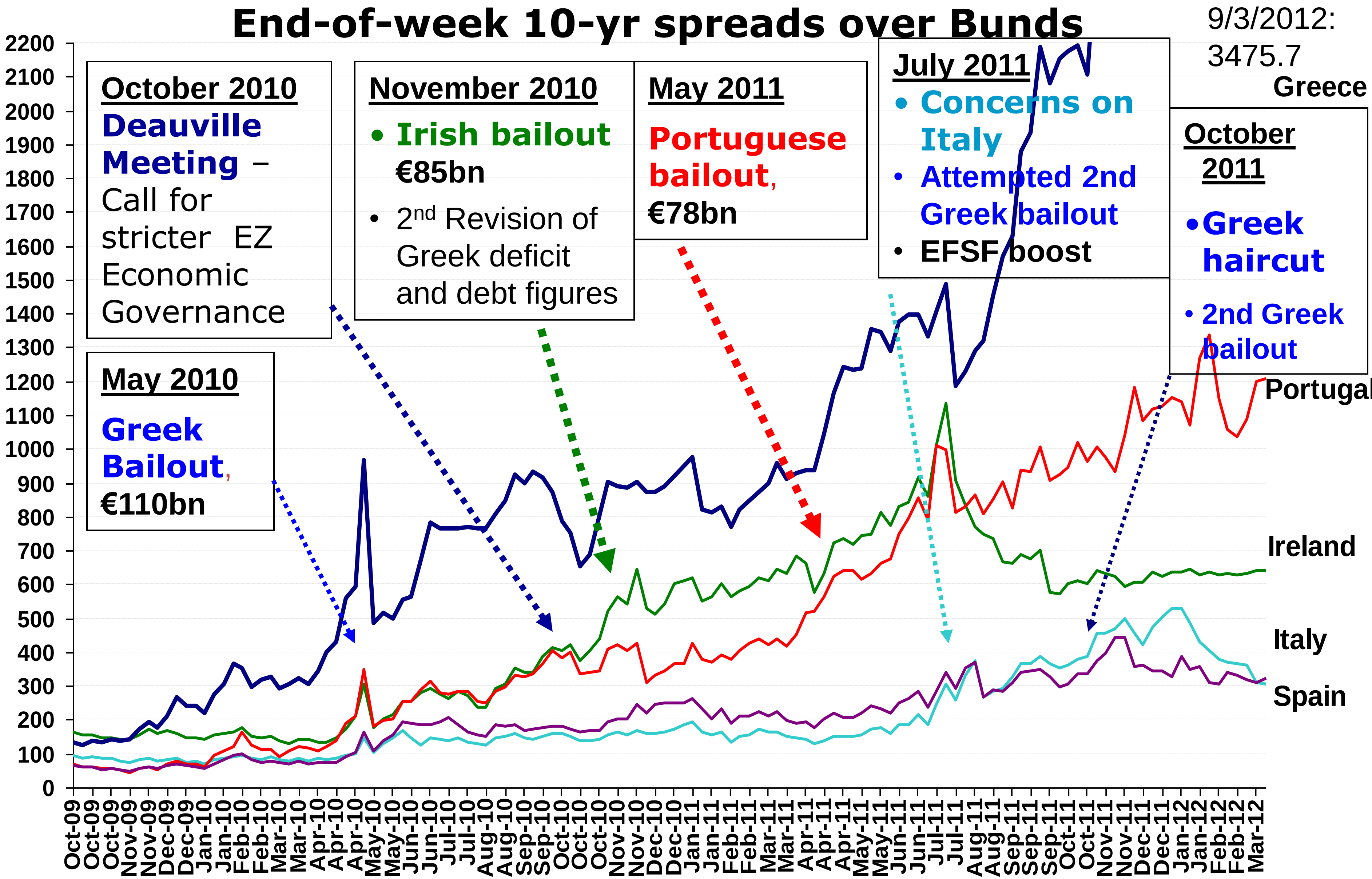
Household & Corporate Debt-to-GDP in 2011



- ✓ EA Private debt higher than Public debt in 2011
- ✓ Most countries above the 45-degree line: Higher private than public debt
- ✓ Exceptions are Belgium, Italy & Greece, where Private debt is smaller than Public Debt

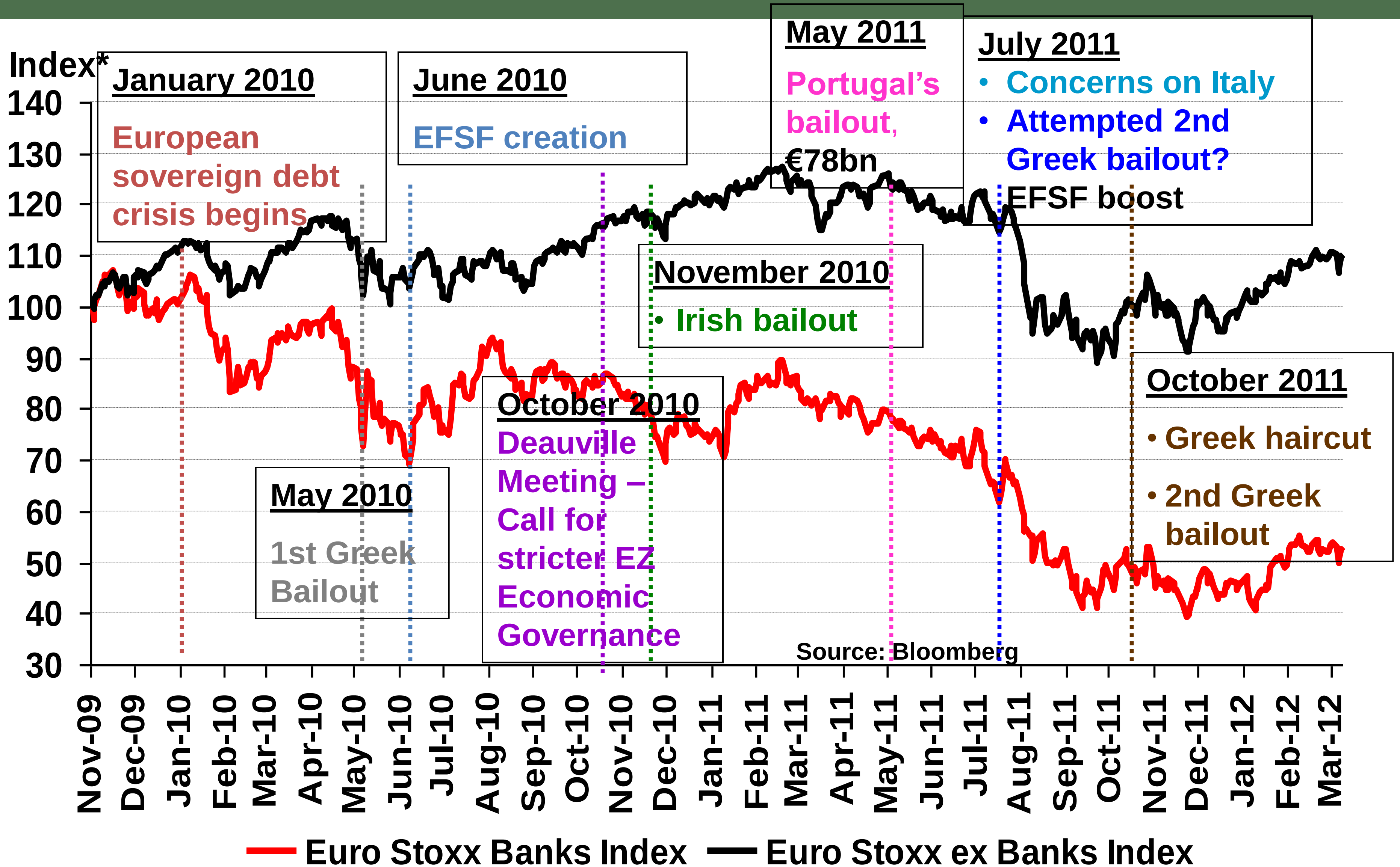
Source: EU, IMF, ECB, Federal Reserve, NBS

I. Over two years of Greek & Euro Area crisis



Source: Bloomberg

I. Euro Area bank stocks distressed



* October 30, 2009=100, first observation: Beginning of November 2009

Capital deficiency € 114.7 bn from (a) stress tests that mark-to-market sovereign bonds, and (b) increase in Core Tier I ratio to 9% from 7%

I. Gloomy forecasts for 2012

✓ A standstill in the Euro Area is making the EU political landscape volatile and the Greek adjustment even more difficult

	Real GDP (% yoy)			Inflation (avg % yoy)			Current Account (% of GDP)			Gen.Budget Balance (% of GDP)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
GREECE	-3.5	-6.8	-4.9*	4.7	3.1	-2.0*	-10.1	-8.4	-6.4	-10.8	-9.3	-4.6
USA	3.0	1.7	2.0	1.6	3.1	2.3	-3.2	-3.1	-2.9	-10.5	-10.0	-8.5
EURO AREA	1.9	1.4	0.0	1.6	2.7	2.3	-0.5	-0.3	-0.4	-6.2	-4.3	-3.5
UK	2.1	0.9	0.5	3.3	4.5	2.6	-3.3	-2.3	-1.6	-9.9	-8.1	-7.7
JAPAN	4.4	-0.7	1.6	-0.7	-0.3	-0.1	3.6	2.1	2.0	-9.0	-9.7	-9.4

Source: EFG Research

*Projections of Greek GDP and components are subject to unusually high uncertainty for this year, hence, this point estimate should only be considered indicative. A range forecast of -4% to -5% applies for the GDP growth rate and of -2% to -3% for the GDP deflator.

II

I. Greece in the Euro Area: Imbalances and Markets

II. Crisis hides some important achievements

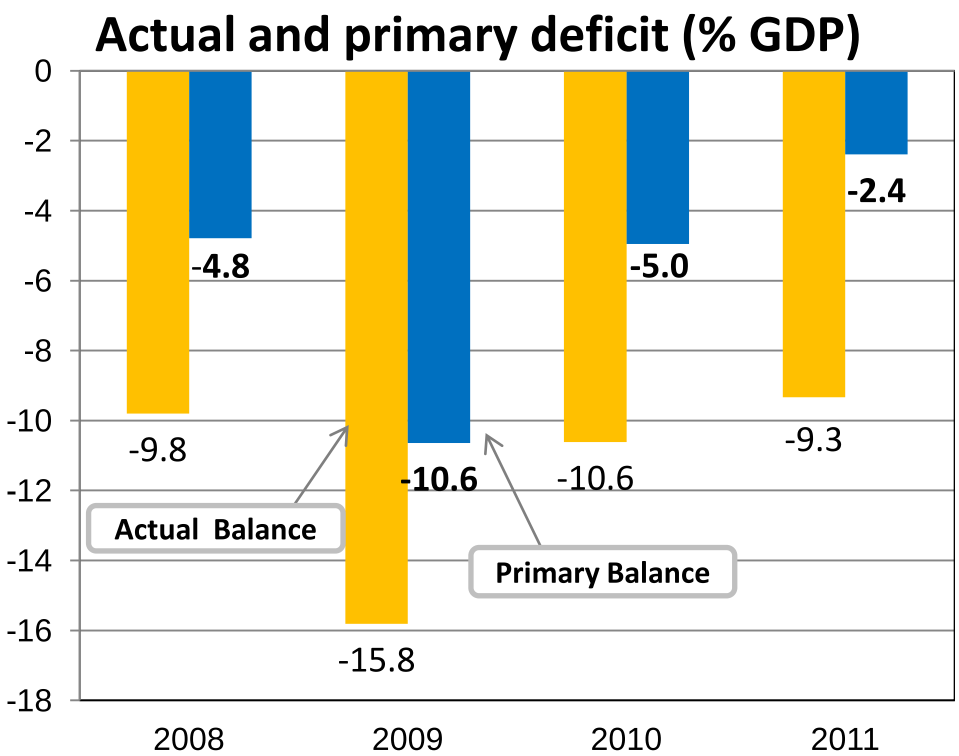
III. Can growth come back?

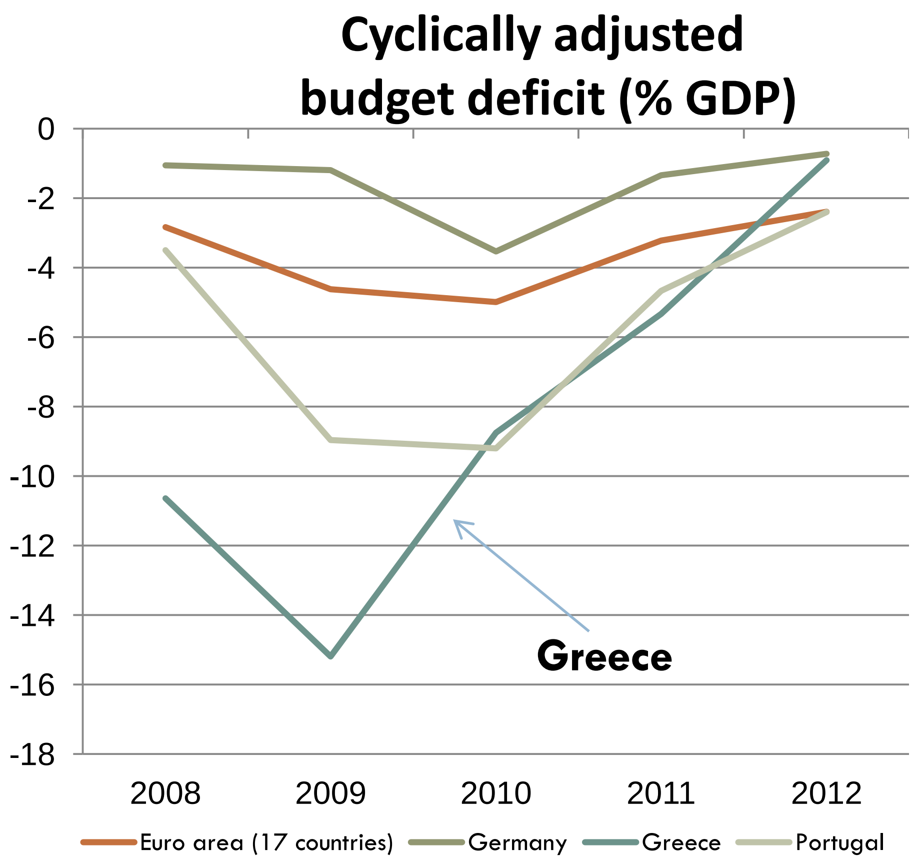
II. Austerity across the board

- **Cuts in Public Sector wages** by 30% over 2010-11
  - Across the board wage cuts of 15% in 2010 and 17% average reduction in 2011-12
- **Cuts in public sector employees**
  - reduced by 82,400 in 2010 (10% decrease); further net decrease by 150,000 employees by 2015 as per 1:5 rule (cf. Law 4046/2012, 2nd Memorandum of Understanding (MoU) voted on 13 Feb)
- **Cuts in salaries** in State-owned Enterprises (SoE)
  - By **30%** in 2010, with an additional average cut of **20%** in 2011-12 and ceiling on average monthly salaries at €1,900
  - As of February 2012, average SOE wage is at 65% of average wage in 2009
- **Cuts in pensions**
  - In the public & private sector by 10% in 2010, further 4% average cut in 2011-12
- **Cuts in minimum wage**
  - By 22% in 2012, by 32% for under-25 (Law 4046/2012)

II. Fiscal consolidation: deficits drop fast

- ❖ ***Primary* deficit reduction of 8.2 p.p.** from €24.7 bn in 2009 to €5.2 bn in 2011
- ❖ ***Structural* deficit reduction** estimated at **15 p.p.**





Sources: For 2008-10, Eurostat. For 2011, EC/ECB/IMF estimates

Source: Eurostat's AMECO (2012 assumes PSI)

II. General Government Finances 2009-11: A comparison

	2009 Act .	2010 Act .	2011 Est.	2012 Proj.	2009-2011 Change	2009-2011 %
Greece (bn euros)						
Revenue	**88.1**	89.8	**89.1**	88.0	1.0	1.1%
Primary Expenditure	**112.7**	101.0	**94.2**	90.1	-18.5	-16.4%
Primary Balance	**-24.7**	-11.3	**-5.1**	-2.1	19.6	-79.4%
Greece (% GDP)						
Revenue	**38.0**	39.5	**41.1**	42.6	3.1	8.2%
Primary Expenditure	**48.7**	44.4	**43.4**	43.7	-5.3	-10.9%
Primary Balance	**-10.6**	-5.0	**-2.4**	-1.0	8.2	-77.4%
Euro Area 17 (% GDP)						
Revenue	**44.8**	44.7	**45.3**	45.8	0.5	1.1%
Primary Expenditure	**48.3**	48.1	**46.4**	46.1	-1.9	-3.9%
Primary Balance	**-3.5**	-3.4	**-1.2**	-0.3	2.3	-65.7%
Greece (bn euros)						
GDP (nominal)	**231.6**	227.3	**217.1**	206.3	-14.5	-6.3%

Source: IMF staff estimates, AMECO

II. Decomposition of primary expenditure

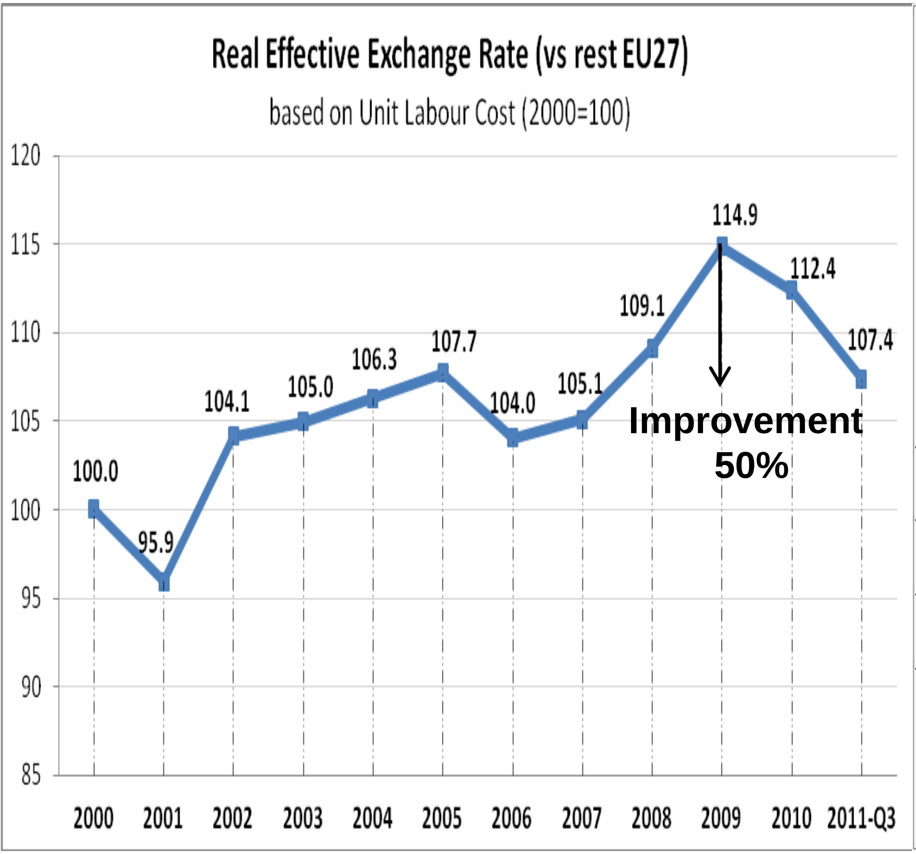
- The primary deficit from 2009 to 2011 has fallen by 8.2% of GDP, with almost **two thirds** of the adjustment coming from cuts in primary expenditure (5.3% of GDP)
- Primary expenditure has fallen by **16.4%** since 2009

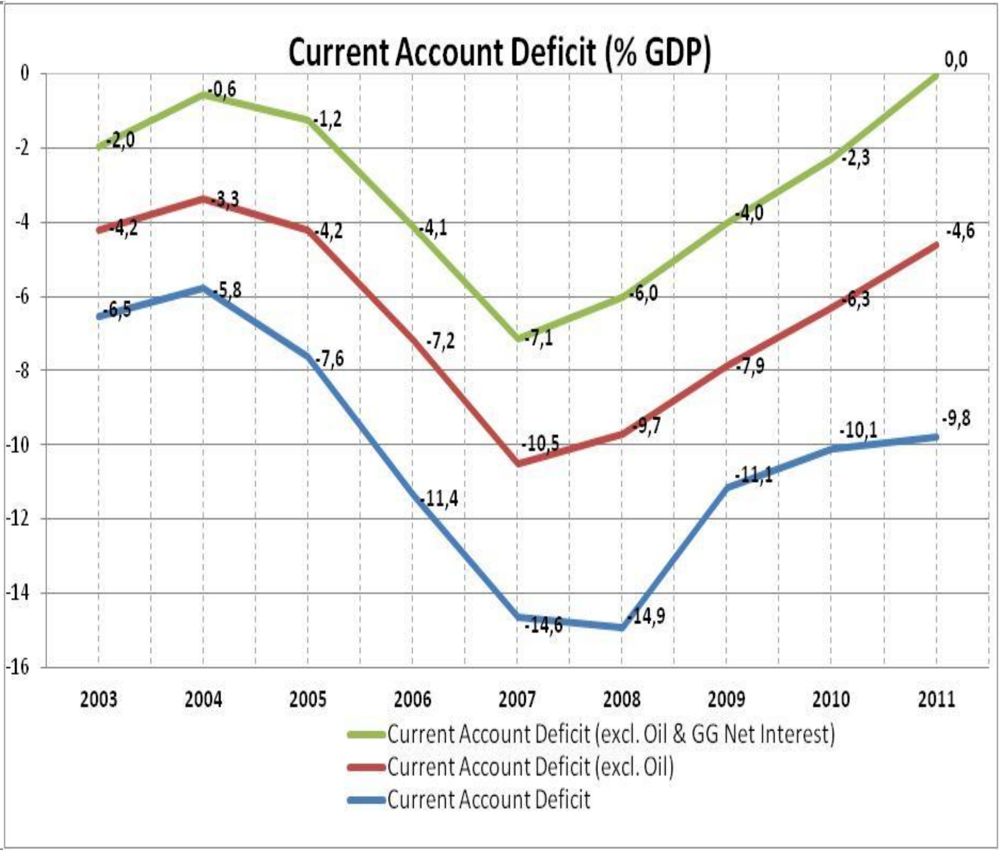
Primary Expenditures 2009-11 (bn euros)

	2009 Act.	2010 Act.	2011 Est.	2009-11 Change %
Primary Expenditure	112.7	101.0	94.2	-16.4%
Wages	31.0	27.5	25.8	-16.8%
Social benefits and pensions	49.0	47.2	46.5	-5.1%
Goods and services	17.1	14.0	11.9	-30.4%
Other current	3.5	3.3	2.4	-27.8%
Capital	12.1	8.8	7.5	-38.0%

Source: IMF staff estimates, February 2012

II. Competitiveness gradually being regained





Source: *Commission.* **Within two years, 2010-11, Greece managed to regain over 50% of the competitiveness lost between 2000 and 2009**. From 2009 to 2011, the Real Effective Exchange Rate (vis-à-vis its 26 EU trade partners), as measured by the Unit Labor Cost, fell from 114.9 to 107.4 index points. Real effective exchange rate is the nominal EER deflated by a weighted average of foreign, relative to domestic, prices or costs. It is, thus, a measure of price and cost competitiveness

Source: *Bank of Greece*. **The current account deficit fell from 15% of GDP in 2008 to 9.8% of GDP in 2011.** The deficit reduction is even more significant if we exclude the oil trade balance and the general government interest payments: in this case the deficit in 2011 was around 0% GDP, down from 6% GDP in 2008. This also demonstrates the burden of the debt servicing cost.

II. Labor market reforms – 2nd MoU

Improve the functioning of the labour market (Law 4046/2012 – 2nd MoU)

- **Adjustment / Reduction of wage floors:**
  - 22% reduction in the minimum wage
  - 32% reduction in the minimum wage for employees under the age of 25
- **Structural measures to level the playing field in collective bargaining**
  - Shortening the length of collective contracts and reduction of their 'after effects' time.
  - Removal of 'tenure' (contracts with definite duration defined as expiring upon age limit or retirement) in all existing legacy contracts in all companies.
  - A freeze of 'maturity' (referring to all automatic increases in wages dependent on time) until unemployment falls below 10 percent.
  - Elimination of unilateral recourse to arbitration
- **Adjustment to non-wage labor costs:**
  - Close earmarked funds engaged in social expenditures (OEK, OEE).

II. Earlier labor market reforms

More flexible working arrangements & wage bargaining

- ❖ Part-time working arrangements, possibility to opt for short-term (intermittent); working on a daily, weekly or other basis
- ❖ Sub-minimum wages to facilitate youth employment
- ❖ 50% reduction in severance payments; 20% cut in overtime premia
- ❖ Extension of probation period from 3 to 12 months
- ❖ Increase in permissible dismissals from 2 to 5% per month
- ❖ Rationalized eligibility criteria for unemployment benefits
- ❖ Reform of the Labor Inspectorate
- ❖ Collective bargaining decentralization: firms allowed to opt out from sectoral-level agreements
- ❖ Mediation and Arbitration Organization (OMED) created

II. Public sector reforms

- **Single Payment Authority** established
- **Wage grid** adopted aimed at creating simplified uniformed remuneration system
- New **census of civil servants** (717,792 employees on public payroll)
- **EU Taskforce** established to support implementation of structural reforms
- **Local government reform**
  - Municipalities reduced from 1034 to 325
  - Local authority entities reduced from 6,000 to 1,160
  - Decrease of elected officials from 30,795 to 16,657
  - Annual cost reduction exceeds 400 mn euros

II. Pension and health benefits reforms

- Future rise in public pension expenditure not to exceed 2.5 % of GDP or the EU-wide average of 14% - since May 2010
- Retirement age in line with life expectancy; benefits linked to lifetime contribution; disincentives for early retirement
- Supplementary pensions to be rationalized in 2012
- Health expenditure not to exceed 6% of GDP (2nd MoU)
- Social security funds merged into one (EOPYY), equalizing benefits and contributions, yielding significant cost savings
- Overhaul of the list of difficult and hazardous occupations
- Disability criteria and rules revised (since Sep. 2011)
- Pharmaceutical expense reduction (2nd MoU)

II. Important tax reforms underway

- **Merger and centralization** of tax offices in process, with **new IT system** interconnecting all tax offices by January 2013
- "**Fast track"** (90 days) administrative tax dispute resolution mechanism legislated shortening judicial procedures for tax cases
- **New unit for large tax-payers** activated to monitor, audit and collect tax payments and debts
- **Big rise in audits and new risk-based audits** for high-net-worth and self-employed individuals identified by the anti-evasion task force
- **Disclosure of tax evaders:** 4,152 individuals and 5,955 private companies
- **Reducing the backlog** of tax cases in the court system
- Institutional arrangements leading to criminal charges for tax offenders
- Full overhaul of taxation system, under 2nd MoU

II. Financial sector regulation & supervision

- Assessment of the banking system's capital needs in order to achieve **Core Tier 1 capital ratios of 9%** by Sept 2012 and **10%** by June 2013.
- Formulation of legal framework for bank recapitalization and resolution
- **Strategic assessment** of the banking sector
- **Strengthening governance arrangements** in financial oversight agencies (HFSF, HDIGF)
- Ensuring adequate banking system liquidity, in consistency with the objective to reduce reliance on exceptional central bank support.

III

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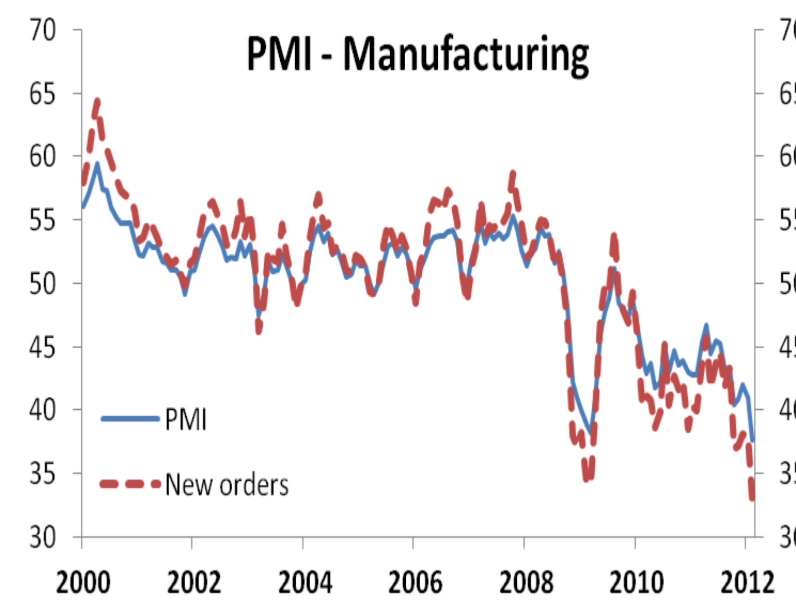
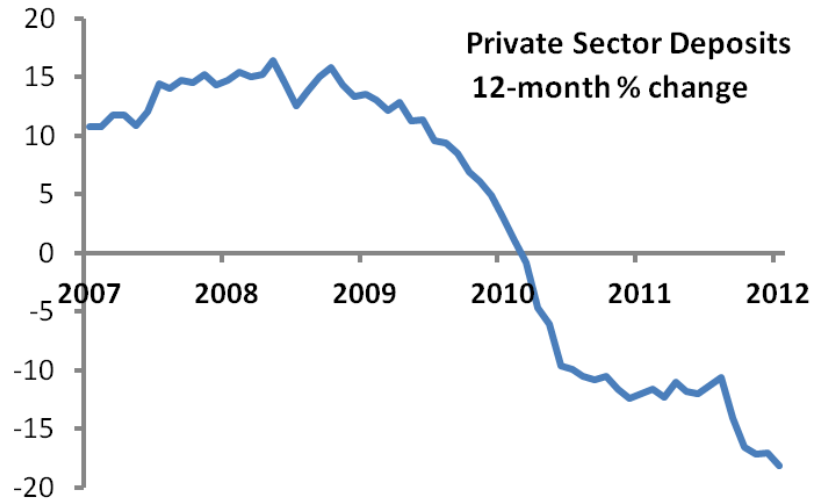
III. Seeds of short-term reversal

Short-term reversal is possible at year-end:

- Successful PSI expected to gradually reduce uncertainty and improve economic sentiment
- Bank deposits expected to increase and reverse the trend of illiquidity
- Recapitalization of Greek banks by September expected to improve financial stability
- As bank lending resumes, companies will gain breathing space
- EIB funding can help unlock liquidity (guarantee fund for SMEs, risk sharing instrument for stalled motorway projects)
- Structural funds are being absorbed at an increasing pace, as year-end 2011 absorption rate above EU average

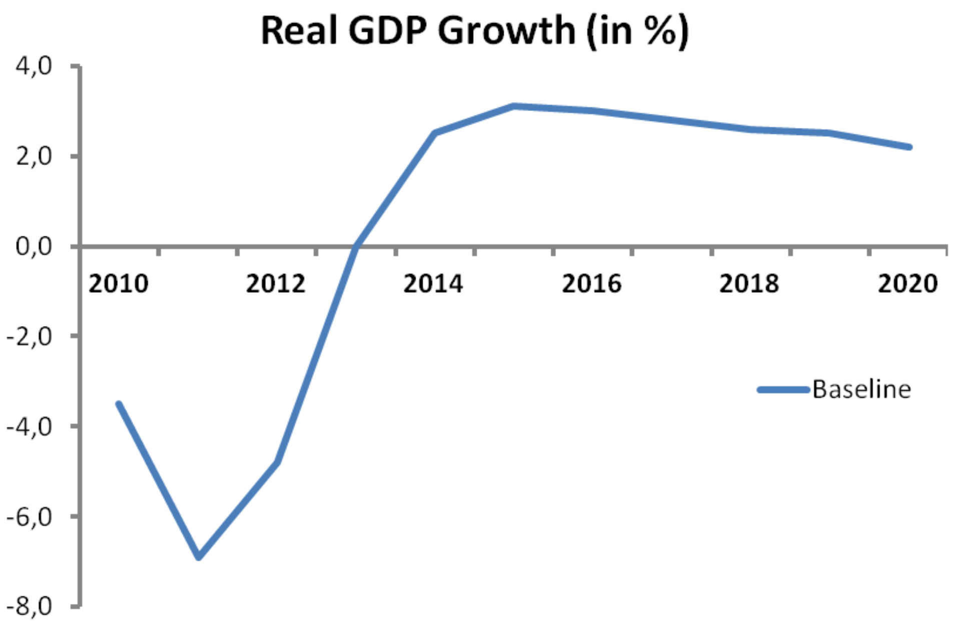




III. A new balanced growth path

The long-term picture is brighter:

- Given current policy changes, competitiveness will improve further in 2012 -2013
- Renewed labor market flexibility expected to keep unemployment from rising too fast
- Product market reforms will begin bearing fruit
- Exports expected to gradually take a larger fraction of the economy
- Investment expected to reverse its past downward trend
- Troika assumptions of future potential growth are conservative



IV. Conclusion: A reversal story

- ❖ Current recession should not blur the achievements in competitiveness and the restructuring the general public sector
- ❖ A reversal in sentiment is possible, post PSI and post bank recapitalization
- ❖ As credibility improves and liquidity comes back to the financial sector, companies can begin utilizing the structural funds more effectively
- ❖ Investment can subsequently reverse its downward trend
- ❖ Political consensus and MoU ownership appear to gain traction, as the two major parties finally agree on the required policies
- ❖ An export-led paradigm slowly replaces the failed consumption-led one, with price- and quality-competitiveness as the key characteristics
- ❖ Efficiency of the State improves as
  - ✓ tax regime stabilizes, tax evasion is captured and revenues increase without an increase in marginal tax rates
  - ✓ Privatizations attract FDI and reduce the size of the general government sector
  - ✓ A level playing field takes root with a reduction in bureaucracy and loss of power of special interest groups
  - ✓ A switch in the allocation of public spending occurs away from consumption and military towards Public Investment and Education

Thank you for your attention